

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
DECEMBER 31, 2014 AND 2013

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NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2014 and 2013

Our discussion and analysis of the financial performance of Neosho Memorial Regional Medical Center provides a narrative overview of the Medical Center's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Medical Center's net position increased by \$1,421,113 or 4.8 percent in 2014 and increased by \$315,791 or 1.1 percent in 2013.

The Medical Center reported operating income of \$2,025,226 in 2014, \$946,153 in 2013, and \$3,084,243 in 2012.

Using these financial statements

The Medical Center's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, and resources held by or for the benefit of the Medical Center.

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in them. The Medical Center's net position - the difference between assets and liabilities - may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Medical Center's net position is one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2014 and 2013

Assets, liabilities, and net position

Table 1 below summarizes the Medical Center's statements of net position for the latest three calendar years.

Table 1: Assets, Liabilities, and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$ 20,531,628	\$ 17,848,654	\$ 18,334,849
Capital assets, net	26,216,448	27,303,737	27,053,995
Other noncurrent assets	<u>4,719,614</u>	<u>6,878,719</u>	<u>6,895,048</u>
Total assets	<u>51,467,690</u>	<u>52,031,110</u>	<u>52,283,892</u>
Current liabilities	4,773,748	4,776,206	4,569,542
Long-term liabilities	<u>15,462,901</u>	<u>17,444,976</u>	<u>18,220,213</u>
Total liabilities	<u>20,236,649</u>	<u>22,221,182</u>	<u>22,789,755</u>
Total net position	<u>\$ 31,231,041</u>	<u>\$ 29,809,928</u>	<u>\$ 29,494,137</u>

Cash and accounts receivable are the two most significant components of current assets. Cash increased by \$1,788,741 in 2014 after increasing by \$769,400 in 2013 and \$2,235,652 in 2012. The Medical Center continues to generate steady cash flows from operations generating \$4,418,840, \$5,724,548, and \$6,204,055 during 2014, 2013, and 2012. These cash flows are utilized to fund the Medical Center's debt service requirements and capital acquisitions. Cash is also affected by timing of our collection of accounts receivable and our funding of funded depreciation, or assets limited as to use designated for capital acquisitions. Net accounts receivable at December 31, 2014, 2013, and 2012, were \$5,614,919, \$5,400,525, and \$5,436,201 representing 47, 48, and 49 days of net patient service revenue in net accounts receivable. Assets limited as to use designated for capital acquisitions decreased by \$741,359 in 2014 as compared with 2013 and decreased by \$16,329 in 2013 as compared with 2012. The accompanying cash flow statement provides additional details as to the change in cash balances for 2014 and 2013.

The Medical Center's additions to capital assets were \$2,336,539 in 2014 as compared with \$3,590,830 in 2013 and \$3,289,953 in 2012. Net capital assets are also impacted by annual depreciation provisions which were \$3,423,828 in 2014 and \$3,289,492 in 2013.

The Medical Center discontinued transferring funds to funded depreciation during 2014 which resulted in a decline in these balances. Funds held by trustees under bond indenture agreements are required to meet the bond reserve and debt service reserve fund requirements for the bonds. These funds decreased in 2014 due to the current refunding of the Series 2006 Hospital Refunding Revenue Bonds with the Series 2014 Hospital Refunding Revenue Bonds. The decrease is a result of the funds held as reserve for debt service not being required at year end for the Series 2014 bonds.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2014 and 2013

Net position or equity, increased by 6.4 percent from 2012 to 2014. This increase is primarily from our operating results which are discussed below in more detail.

Operating results and changes in net position

The Medical Center's net position increased by \$1,421,113 or 4.8 percent in 2014 and \$315,791 or 1.1 percent in 2013, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Net patient service revenue	\$ 43,511,296	\$ 41,296,977	\$ 40,632,364
Other operating revenue	1,067,215	1,043,888	893,651
Electronic health record incentive revenue	921,964		750,525
Total operating revenues	<u>45,500,475</u>	<u>42,340,865</u>	<u>42,276,540</u>
Operating expenses			
Salaries and benefits	23,430,373	22,964,003	21,123,705
Supplies and other	16,621,048	15,141,217	14,722,340
Depreciation and amortization	<u>3,423,828</u>	<u>3,289,492</u>	<u>3,346,252</u>
Total operating expenses	<u>43,475,249</u>	<u>41,394,712</u>	<u>39,192,297</u>
Operating income	2,025,226	946,153	3,084,243
Nonoperating revenues (expenses)	(613,272)	(657,281)	(614,332)
Capital grants and contributions	<u>9,159</u>	<u>26,919</u>	<u>13,711</u>
Increase in net position	<u>\$ 1,421,113</u>	<u>\$ 315,791</u>	<u>\$ 2,483,622</u>

The first component of the overall change in the Medical Center's net position is its operating income - generally the difference between net patient service revenues and other operating revenues and the expenses incurred to perform those services. The Medical Center's operating margin was 4.5 percent in 2014, increasing from 2.2 percent in 2013.

The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, and other special payments. Net patient service revenue is also affected by changes in expenses, as a significant portion of the revenues are associated with services provided to Medicare beneficiaries whose services are reimbursed based on cost reimbursement principles. Services rendered to traditional Medicaid beneficiaries were also cost reimbursed through December 31, 2012. After this date, Medicaid services are prospectively paid by managed care organizations with rates set by the State.

The Medical Center's net patient service revenues increased by 5.4 percent in 2014 as compared to 2013 and by 1.6 percent in 2013 as compared to 2012. During the past couple of years we have increased our outpatient services. The Medical Center installed an MRI in late 2012 which replaced a mobile unit which has resulted in increased volumes. The Medical Center has also expanded its clinic

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2014 and 2013

services which include the addition of a rural health clinic in 2014. As a critical access hospital, we are limited to having twenty-five inpatients admitted to our Medical Center at any one time. We operate our Medical Center near this limit often and do not anticipate growing our inpatient services in the future. We are focused on growing our outpatient services which is consistent with national trends of patients increasingly being treated in an outpatient setting. We expect that this trend will continue in our service area.

In recent years there has been two changes in Medicare reimbursement which has impacted the Medical Center's net revenues. The first item was the implementation of automatic sequestration cuts of 2 percent of Medicare payments which were implemented on April 1, 2013. We estimate that this reduced the Medical Center's net revenues by approximately \$300,000 and \$220,000 in 2014 and 2013, respectively. The second change resulted from the reduction in Medicare reimbursement of uncollectible Medicare bad debts from 100 percent in 2012 to 88 percent in 2013 and 76 percent in 2014. We estimate that these changes reduced the Medical Center's net revenues by approximately \$115,000 in 2013 and by an additional \$159,000 in 2014 both as compared with the prior year. Medicare will again reduce reimbursement for uncollectible Medicare deductible and coinsurance by an additional 11.7 percent in 2015.

The Medical Center also meets the eligibility requirements for the State of Kansas Medicaid DSH program which awards payments to hospitals based on the level of uncompensated care provided by hospitals to uninsured or Medicaid patients. The payments through Medicaid DSH are disbursed quarterly to the Medical Center. Net patient service revenues recognized from this program were \$937,600, \$937,740, and \$1,000,907 in 2014, 2013, and 2012, respectively. These amounts may decrease in the future as the federal government reduces the amounts allotted to Medicaid DSH and redirects these funds to support other health care initiatives.

Other significant items affecting net patient service revenues are the level of charity care and bad debts incurred by the Medical Center. These amounts are deducted from gross revenues along with third-party contractual adjustments to arrive at net patient service revenues. We are focused on identifying charity care which requires additional resources to document eligibility under the Medical Center's policies. For the years ended 2014, 2013, and 2012, the Medical Center's charity care and provision for bad debts were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Provision for bad debts	\$ 4,194,556	\$ 4,460,146	\$ 5,016,604
Charity care	1,426,205	1,422,773	1,058,202
Uninsured discounts	<u>349,152</u>	<u>38,904</u>	<u></u>
	<u>\$ 5,969,913</u>	<u>\$ 5,921,823</u>	<u>\$ 6,074,806</u>

These amounts represent 5.1 percent, 5.4 percent, and 6.0 percent of gross patient service revenues for the respective years ended 2014, 2013, and 2012. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2014 and 2013

The Medical Center recognized electronic health record incentive revenues which relate to the Medical Center certifying and meeting the criteria for electronic health record meaningful use. In 2012, \$750,525 in revenues were recognized from both the Medicare and Medicaid programs. In 2014, the Medical Center recognized electronic health record incentive revenues of \$921,964 from both the Medicare and Medicaid programs. 2015 will be the final year that the Medical Center is eligible to claim additional expenditures related to the implementation of electronic health records.

Employee salaries and wages increased by \$112,995 or 0.6 percent in 2014 and increased by \$1,360,568 or 6.2 percent during 2013. The change in salaries is driven by two factors which are the change in full-time equivalent employees (FTEs) and the average increase in employee hourly wages. The Medical Center employed an average of 333 FTEs during 2014, an 5 FTE increase from 2013. FTEs for 2013 increased by 18 from 2012. The significant increase in FTEs during 2013 is due to the Medical Center assuming the EMS service for the entire county of Neosho as of January 1, 2013.

Employee benefit costs as a percentage of salary and wage expense was 25.7 percent, 24.0 percent, and 23.1 percent in 2014, 2013, and 2012, respectively. These costs have increased gradually as a percentage of gross salaries and wages during the past three years. The one component of this expense that has the most variability from year to year is the cost of providing health insurance coverage to our employees. This expense increased by \$361,697 in 2014 after increasing by \$226,463 in 2013, both as compared to the prior year.

Supplies and other expenses increased by \$1,479,831, \$418,877, and \$842,046 in 2014, 2013, and 2012, respectively. In 2014, the Medical Center experienced an approximate \$306,000 increase in medical supply and pharmacy expenses, an approximate \$368,000 increase in physical therapy and occupational therapy contract service expense, an approximate \$135,000 increase in surgery contract service expense, and an approximate \$313,000 increase in expense related to bond issuance costs. In 2013, the Medical Center experienced an approximate \$155,000 increase in medical supply and pharmacy expenses, an approximate \$118,000 increase in maintenance building and repair expense, and an approximate \$109,000 increase in surgery minor equipment.

Depreciation and interest expenses combined increased by \$88,859 in 2014 as compared to a \$48,135 decrease in 2013. In 2014, we experienced higher depreciation costs and lower interest expense resulting from the refinancing of the outstanding bonds at lower interest rates.

This financial report is designed to provide a general overview of the Medical Center's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Neosho Memorial Regional Medical Center, 629 S. Plummer, Chanute, Kansas 66720.



Certified Public Accountants
and Management Consultants

Heather R. Eiche, CPA
Brian J. Florea, CPA
John R. Helms, CPA
Eric L. Otting, CPA

Darrell D. Loyd, CPA
Jere Noe, CPA
John E. Wendling, CPA
Barry W. Boyles, CPA
Adam C. Crouch, CPA
Ashley R. Davis, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Neosho Memorial Regional Medical Center

We have audited the accompanying financial statements of the business-type activity of Neosho Memorial Regional Medical Center, a component unit of Neosho County, Kansas, as of and for the years ended December 31, 2014 and 2013, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activity of Neosho Memorial Regional Medical Center as of December 31, 2014 and 2013, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise Neosho Memorial Regional Medical Center's financial statements as a whole. The supplementary information presented on pages 26 through 29 for purposes of additional analysis is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Wendling, Noel Nelson & Johnson LLC

Topeka, Kansas
March 31, 2015

FINANCIAL STATEMENTS

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF NET POSITION

December 31,

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,202,576	\$ 10,413,835
Assets limited as to use	426,944	467,883
Patient accounts receivable, net of estimated uncollectibles of \$2,727,593 in 2014 and \$2,046,640 in 2013	5,614,919	5,400,525
Inventories	995,903	1,040,047
Prepaid expenses	417,955	393,745
Other receivables	771,302	13,316
Estimated third-party payor settlements	<u>102,029</u>	<u>119,303</u>
Total current assets	<u>20,531,628</u>	<u>17,848,654</u>
ASSETS LIMITED AS TO USE		
Internally designated for capital acquisitions	4,661,251	5,402,610
Under bond indenture agreements - held by trustee	<u>426,944</u>	<u>1,885,629</u>
	5,088,195	7,288,239
Less amount required to meet current obligations	<u>426,944</u>	<u>467,883</u>
	<u>4,661,251</u>	<u>6,820,356</u>
CAPITAL ASSETS, NET	<u>26,216,448</u>	<u>27,303,737</u>
REAL ESTATE INVESTMENTS, AT COST	<u>58,363</u>	<u>58,363</u>
Total assets	<u>\$ 51,467,690</u>	<u>\$ 52,031,110</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Current maturities of long-term debt and capital leases	\$ 888,241	\$ 774,793
Accounts payable and accrued expenses	1,088,731	1,181,635
Salaries, wages, and payroll taxes payable	606,603	567,492
Accrued vacation pay	1,575,725	1,592,711
Interest payable	245,806	270,993
Estimated third-party payor settlements	<u>368,642</u>	<u>388,582</u>
Total current liabilities	4,773,748	4,776,206
LONG-TERM DEBT AND CAPITAL LEASES, net of current maturities	<u>15,462,901</u>	<u>17,444,976</u>
Total liabilities	<u>20,236,649</u>	<u>22,221,182</u>
NET POSITION		
Invested in capital assets net of related debt	9,865,306	9,083,969
Restricted for debt service	426,944	1,885,629
Unrestricted	<u>20,938,791</u>	<u>18,840,330</u>
Total net position	<u>31,231,041</u>	<u>29,809,928</u>
Total liabilities and net position	<u>\$ 51,467,690</u>	<u>\$ 52,031,110</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
Year ended December 31,

	<u>2014</u>	<u>2013</u>
Operating revenues		
Net patient service revenue	\$ 43,511,296	\$ 41,296,977
Other	1,067,215	1,043,888
Electronic health records incentive revenue	<u>921,964</u>	<u> </u>
Total operating revenues	<u>45,500,475</u>	<u>42,340,865</u>
Operating expenses		
Salaries and wages	18,633,283	18,520,328
Employee benefits	4,797,090	4,443,675
Supplies and other expenses	16,621,048	15,141,217
Depreciation and amortization	<u>3,423,828</u>	<u>3,289,492</u>
Total operating expenses	<u>43,475,249</u>	<u>41,394,712</u>
Operating income	<u>2,025,226</u>	<u>946,153</u>
Nonoperating revenues (expenses)		
Investment income	210,204	209,755
Interest expense	(829,212)	(874,689)
Noncapital grants and contributions	<u>5,736</u>	<u>7,653</u>
Total nonoperating revenues (expenses)	<u>(613,272)</u>	<u>(657,281)</u>
Excess of revenues over expenses before capital grants and contributions	1,411,954	288,872
Capital grants and contributions	<u>9,159</u>	<u>26,919</u>
Increase in net position	1,421,113	315,791
Net position beginning of year	<u>29,809,928</u>	<u>29,494,137</u>
Net position end of year	<u>\$ 31,231,041</u>	<u>\$ 29,809,928</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS

Year ended December 31,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 43,294,236	\$ 42,258,420
Payments to or on behalf of employees	(23,408,248)	(22,689,422)
Payments for supplies and services	(16,694,018)	(14,880,177)
Other receipts and payments	<u>1,226,870</u>	<u>1,035,727</u>
Net cash provided by operating activities	<u>4,418,840</u>	<u>5,724,548</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	<u>5,736</u>	<u>7,653</u>
Net cash provided by noncapital financing activities	<u>5,736</u>	<u>7,653</u>
Cash flows from capital and related financing activities		
Purchase of property and equipment	(2,336,539)	(3,590,830)
Interest paid on capital related debt	(854,835)	(883,431)
Capital grants and contributions	9,159	26,919
Proceeds from issuance of long-term debt	14,775,000	
Principal payments on long-term debt obligations	<u>(16,634,408)</u>	<u>(739,331)</u>
Net cash used for capital and related financing activities	<u>(5,041,623)</u>	<u>(5,186,673)</u>
Cash flows from investing activities		
Change in assets limited as to use	2,200,044	14,117
Interest received	<u>205,744</u>	<u>209,755</u>
Net cash provided by investing activities	<u>2,405,788</u>	<u>223,872</u>
Net increase in cash and cash equivalents	1,788,741	769,400
Cash and cash equivalents at beginning of year	<u>10,413,835</u>	<u>9,644,435</u>
Cash and cash equivalents at end of year	<u>\$ 12,202,576</u>	<u>\$ 10,413,835</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,025,226	\$ 946,153
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,423,828	3,289,492
Provision for bad debts	4,194,556	4,460,146
(Increase) decrease in		
Accounts receivable	(4,408,950)	(4,424,470)
Estimated third-party payor settlements	(2,666)	925,767
Inventories	44,144	(30,445)
Prepaid expenses	(24,210)	33,352
Other current assets	(762,309)	(8,161)
Increase (decrease) in		
Accounts payable and accrued expenses	(92,904)	258,133
Salaries and payroll taxes payable	39,111	92,011
Accrued vacation	(16,986)	182,570
Net cash provided by operating activities	<u>\$ 4,418,840</u>	<u>\$ 5,724,548</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Neosho Memorial Regional Medical Center is owned by Neosho County, Kansas, and operated by the Board of Trustees of Neosho Memorial Regional Medical Center, a seven-member governing board appointed by the governing body of the County. The Medical Center, which was organized in 1950, is a not-for-profit general hospital located in Chanute, Kansas. The Medical Center can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Medical Center is a component unit of the County.

The Medical Center has entered into a management agreement with Quorum Health Resources (QHR) for the management of the Medical Center. Under the agreement, QHR agrees to manage the daily operations of the Medical Center and to provide the Medical Center with the services of a chief executive officer and a chief financial officer, both of which are employed by QHR. The Medical Center's Board of Trustees retains all authority over the business, policies, operations, and assets of the Medical Center.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Basis of accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus.

4. Cash and cash equivalents

Cash and cash equivalents include all cash and short-term investments, excluding any such amounts included in assets limited as to use.

5. Allowance for doubtful accounts

The Medical Center provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Medical Center estimates this allowance based on the aging of its accounts receivable and applying specific reserve factors for each type of payor.

6. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, and assets held by a trustee under a bond indenture agreement.

8. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Cost of borrowing

Interest costs (including amortization of bond premium), incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt are expensed in the period incurred.

10. Accrued vacation pay

The Medical Center employees earn paid time off at varying rates depending on years of service. Paid time off benefits vest to the employee and are paid at the time of termination.

11. Net position

The net position of the Medical Center is classified in three components. "Net position invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital related assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Operating revenues and expenses

The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

14. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges foregone and the estimated cost of providing this care is disclosed in Note C.

15. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

16. Subsequent events

Management has evaluated all subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued. See Note E for subsequent events disclosed in the notes to the financial statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE B - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	Balance December 31, 2013	Transfers and additions	Retirements	Balance December 31, 2014
Land	\$ 286,612	\$ -	\$ -	\$ 286,612
Land improvements	1,604,832			1,604,832
Buildings	18,338,489	1,103,761		19,442,250
Fixed equipment	18,541,542	307,124		18,848,666
Major movable equipment	18,113,263	2,130,429		20,243,692
Totals at historical cost	56,884,738	3,541,314	-	60,426,052
Less accumulated depreciation and amortization	31,002,406	3,423,828	-	34,426,234
	25,882,332	117,486	-	25,999,818
Projects in progress and minor equipment	1,421,405	(1,204,775)		216,630
Capital assets, net	<u>\$ 27,303,737</u>	<u>\$ (1,087,289)</u>	<u>\$ -</u>	<u>\$ 26,216,448</u>

	Balance December 31, 2012	Transfers and additions	Retirements	Balance December 31, 2013
Land	\$ 286,612	\$ -	\$ -	\$ 286,612
Land improvements	1,558,117	46,715		1,604,832
Buildings	17,589,732	748,757		18,338,489
Fixed equipment	18,215,377	342,897	16,732	18,541,542
Major movable equipment	16,917,399	1,370,033	174,169	18,113,263
Totals at historical cost	54,567,237	2,508,402	190,901	56,884,738
Less accumulated depreciation and amortization	27,903,815	3,289,492	190,901	31,002,406
	26,663,422	(781,090)	-	25,882,332
Projects in progress and minor equipment	390,573	1,030,832		1,421,405
Capital assets, net	<u>\$ 27,053,995</u>	<u>\$ 249,742</u>	<u>\$ -</u>	<u>\$ 27,303,737</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE C - REIMBURSEMENT PROGRAMS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Medical Center is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Ambulance and physician services are prospectively paid based on their respective fee schedules. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2011.

Medicaid - Acute care services rendered to Medicaid beneficiaries through December 31, 2012, other than those covered by managed care plans, were paid under provisions applicable to critical access hospitals which were based on cost reimbursement methodologies used by the Medicare program. Final settlement with the Medicaid program is determined after submission of annual cost reports and reviews thereof by the Kansas Department of Health and Environment. The Medical Center's Medicaid cost reports have been audited or reviewed by the Kansas Department of Health and Environment through December 31, 2011. Effective January 1, 2013, inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or fee-for-service basis.

Blue Cross and Blue Shield - Services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE C - REIMBURSEMENT PROGRAMS - Continued

A summary of gross and net patient service revenue is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 118,244,763	\$ 108,800,766
Deductions from patient service revenue		
Third-party contractual adjustments	(69,086,538)	(62,136,706)
Medicaid DSH payments	937,600	937,740
Other discounts and allowances	(614,616)	(383,000)
Charity care	(1,426,205)	(1,422,773)
Uninsured discounts	(349,152)	(38,904)
Provision for bad debts	<u>(4,194,556)</u>	<u>(4,460,146)</u>
Net patient service revenue	<u>\$ 43,511,296</u>	<u>\$ 41,296,977</u>

The Medical Center estimates that the cost of providing charity care, based on overall cost to charge ratios obtained from the Medical Center's cost reports was \$504,052 and \$495,611 for 2014 and 2013, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 43 percent and 6 percent, respectively, of the Medical Center's net patient service revenue during 2014 and 44 percent and 7 percent, respectively, of the Medical Center's net patient service revenue during 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Medical Center recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Medical Center recognized \$921,964 of revenue for EHR incentive payments from Medicare and Medicaid during 2014. No amounts were reported in 2013. These amounts are included in operating revenues on the statement of operations for the years ended December 31, 2014 and 2013.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE D - ASSETS LIMITED AS TO USE

Internally designated

The Medical Center's Board of Trustees has designated certain investments to be used for future capital improvements. These assets may be used for other purposes by action of the Board of Trustees. These assets consist of the following:

	<u>2014</u>	<u>2013</u>
Interest bearing checking	\$ 4,661,251	\$ 5,402,610

Under bond indenture agreement - held by trustee

Assets limited as to use by a bond indenture agreement are held by a trustee and are invested in cash or money market funds and are stated at fair value. These assets relate to the 2006 and the 2014 revenue bond issues (Note E) and are set aside for the following:

	<u>2014</u>	<u>2013</u>
Principal and interest sinking funds	\$ 426,944	\$ 467,883
Bond reserve account	<u> </u>	<u>1,417,746</u>
	<u>\$ 426,944</u>	<u>\$ 1,885,629</u>

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital lease obligations are summarized as follows:

	<u>Outstanding balance</u>	
	<u>2014</u>	<u>2013</u>
5.05% - 5.15% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2006 A (Neosho Memorial Regional Medical Center); issued on September 1, 2006, in the original amount of \$10,000,000, advance refunded on June 26, 2014	\$ -	\$ 10,000,000
4.15% - 5% Neosho County, Kansas Hospital Revenue Bonds, Series 2006 B (Neosho Memorial Regional Medical Center); issued on September 1, 2006, in the original amount of \$10,000,000, advance refunded on June 26, 2014		6,450,000

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

	<u>Outstanding balance</u>	
	<u>2014</u>	<u>2013</u>
3.35 - 4.80% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2014 A (Neosho Memorial Regional Medical Center); issued on June 26, 2014, in the original amount of \$8,800,000 term bonds due September 1, 2030, with mandatory annual redemptions beginning September 1, 2023	\$ 8,800,000	\$ -
0.70 - 3.0% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2014 B (Neosho Memorial Regional Medical Center); issued on June 26, 2014, in the original amount of \$5,975,000 term bonds due serially through September 1, 2018, and term bonds due September 1, 2022, with mandatory annual redemptions beginning September 1, 2019	5,975,000	
Capital lease obligation, interest rate of 2.50%, due in monthly payments of \$18,855 through August 2022, collater- alized by leased equipment with an amortized cost of \$783,366 at December 31, 2014	<u>1,576,142</u>	<u>1,760,550</u>
Unamortized bond premium	16,351,142	18,210,550 <u>9,219</u>
Less current maturities	16,351,142 <u>(888,241)</u>	18,219,769 <u>(774,793)</u>
Long-term obligations net of current portion	<u>\$ 15,462,901</u>	<u>\$ 17,444,976</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a summary of changes in long-term debt and capital lease obligations:

	<u>Capital lease obligations</u>	<u>Hospital revenue bonds</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2013	\$ 1,939,881	\$ 17,010,000	\$ 18,949,881
Principal payments	<u>(179,331)</u>	<u>(560,000)</u>	<u>(739,331)</u>
Outstanding at December 31, 2013	1,760,550	16,450,000	18,210,550
Long-term debt incurred		14,775,000	14,775,000
Principal payments	<u>(184,408)</u>	<u>(16,450,000)</u>	<u>(16,634,408)</u>
Outstanding at December 31, 2014	<u>\$ 1,576,142</u>	<u>\$ 14,775,000</u>	<u>\$ 16,351,142</u>

On September 1, 2006, the County issued \$20,000,000 in Hospital Revenue Bonds, Series 2006 A and B. The net proceeds of the 2006 Series A bonds, along with other available funds of the Medical Center, were used to refund the \$10,000,000 of Series 2005 Hospital Revenue Bonds issued in December 2005. The net proceeds of the 2006 Series B bonds, along with the net proceeds of the Series 2005 bonds were used to fund the renovation and addition to the current hospital building.

On June 26, 2014, the County issued Hospital Refunding Revenue Bonds, Series 2014 A and B, in the principal amount \$14,775,000, to refund the remaining portion of the Series 2006 A and B bonds and to pay costs related to issuance of the 2014 bonds.

Under the terms of the bond indenture, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are for the repayment of principal and interest as they come due as well as for the maintenance of required bond reserve accounts. These amounts are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

Scheduled annual debt service requirements for the Hospital Revenue Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 700,000	\$ 564,689	\$ 1,264,689
2016	725,000	473,425	1,198,425
2017	725,000	466,175	1,191,175
2018	725,000	456,388	1,181,388
2019	750,000	444,063	1,194,063
2020 to 2024	4,300,000	1,926,437	6,226,437
2025 to 2029	5,575,000	1,055,075	6,630,075
2030	<u>1,275,000</u>	<u>61,200</u>	<u>1,336,200</u>
	<u>\$ 14,775,000</u>	<u>\$ 5,447,452</u>	<u>\$ 20,222,452</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The Medical Center also financed the renovation of space and the installation of an MRI in 2012. The transaction is structured as a capital lease and is for a term of ten years.

The following is a schedule of future minimum lease payments under capital leases as of December 31, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 188,241	\$ 38,022	\$ 226,263
2016	193,776	32,487	226,263
2017	198,676	27,587	226,263
2018	203,700	22,563	226,263
2019	208,851	17,411	226,262
2020 to 2022	<u>582,898</u>	<u>20,245</u>	<u>603,143</u>
Total minimum lease payments	<u>\$ 1,576,142</u>	<u>\$ 158,315</u>	1,734,457
Less amounts representing interest			<u>158,315</u>
Present value of net minimum lease payments			<u>\$ 1,576,142</u>

Total interest costs are summarized as follows:

	<u>2014</u>	<u>2013</u>
Total interest incurred	\$ 829,648	\$ 875,591
Amortization of bond premium	<u>(436)</u>	<u>(902)</u>
	<u>\$ 829,212</u>	<u>\$ 874,689</u>

Rental expense under operating leases totaled \$233,391 in 2014 and \$234,368 in 2013.

On February 19, 2015, the Board of Trustees approved a resolution requesting the Board of County Commissioners of Neosho County to issue up to \$12.25 million of revenue bonds to finance costs to renovate and furnish the Medical Center.

NOTE F - RELATED PARTY TRANSACTIONS

The Medical Center contracts for management services, services of certain management personnel, and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Medical Center, with ultimate control over the assets and operations of the Medical Center retained by the Medical Center's board. Amounts paid to QHR during 2014 and 2013, for management services were \$286,942 and \$280,220, respectively. The Medical Center also reimbursed QHR for salaries, employee benefits, and expenses of the chief executive officer and the chief financial officer (Note A1).

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE F - RELATED PARTY TRANSACTIONS - Continued

The Neosho Memorial Regional Medical Center Foundation, Inc. (NMRMC Foundation), is a 501(c)(3) corporation operated by a separate board of directors and provides support to the Medical Center. During the year ended December 31, 2013, the NMRMC Foundation transferred \$18,585 to the Medical Center for the purchase of equipment. No amounts were transferred during the year ended December 31, 2014. In December 2013, The Foundation of Neosho Memorial Regional Medical Center, Inc. (Foundation of NMRMC), was formed as a separate 501(c)(3) corporation with the Medical Center serving as the sole voting member of the Foundation of NMRMC. The Foundation of NMRMC was formed to support the functions or to carry out the purposes of the Medical Center. There were no transactions between this Foundation and the Medical Center during 2014 or 2013, respectively.

The Foundation's total assets are approximately \$765,000 as of December 31, 2014 and this increased by \$35,000 from 2013. Management does not consider the Foundation's net position to be significant in relation to the Medical Center.

The County provides annual support to the Medical Center for the operation of the ambulance department. The County transferred \$278,070 in 2014 and \$265,683 in 2013 for ambulance operations. The County also occasionally acquires ambulances to replace aging vehicles in the Medical Center's fleet. No ambulances were purchased in 2014 or 2013.

NOTE G - RETIREMENT PLAN

The Medical Center sponsors a defined contribution plan (Plan) as authorized by Kansas statutes. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The Plan covers substantially all employees of the Medical Center. Employees are eligible immediately to make contributions to the Plan. To become eligible for contributions made by the Medical Center, the employee must have a year of service, defined as 1,000 hours. Contributions made by the employees vest immediately and contributions made by the Medical Center vest over six years. An employee who leaves the employment of the Medical Center is paid subject to the terms of the individual annuity contract. An employee who retires must begin receiving benefits no later than April 1 of the calendar year following the year in which the participant attains age 70-1/2.

The Medical Center provides for a discretionary match to be determined every year by the Medical Center's Board of Trustees. For the years ended December 31, 2014 and 2013, the Medical Center matched 100 percent of each eligible employee's contribution up to 5-1/2 percent of the participant's compensation. Forfeitures are used to reduce future employer contributions.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE G - RETIREMENT PLAN - Continued

The payroll for employees covered by the Plan for the years ended December 31, 2014 and 2013, was \$12,699,752 and \$12,531,614, respectively. The total payroll was \$18,633,283 in 2014 and \$18,520,328 in 2013. Total contributions to the Plan in 2014 were \$1,409,390 which consisted of \$796,853 of employee contributions and \$612,537 of employer matching contributions. Total contributions to the Plan in 2013 were \$1,421,788 which consisted of \$811,989 of employee contributions and \$600,799 of employer matching contributions.

No pension provision changes occurred during the year that affected the required contributions to be made by the Medical Center or its employees. The Plan held no securities of the Medical Center or other related parties during the year or as of the close of the year.

Total employer contributions in 2014 were 4.7 percent of covered payroll and in 2013 were 4.8 percent of covered payroll. Total employee contributions in 2014 were 6.3 percent of covered payroll and in 2013 were 6.5 percent of covered payroll.

NOTE H - DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Medical Center with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Medical Center's deposits with financial institutions was \$16,858,721 and the bank balance was \$17,078,715 at December 31, 2014. The bank deposits are categorized as follows:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center in its name	\$ 1,250,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	<u>15,828,715</u>
	<u>\$ 17,078,715</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE I - COMMITMENTS AND CONTINGENCIES

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE J - CONCENTRATION OF CREDIT RISK

The Medical Center is located in Chanute, Kansas. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	41%	42%
Medicaid	12	12
Blue Cross	12	13
Commercial insurance	13	15
Workers' compensation	1	1
Self-pay	<u>21</u>	<u>17</u>
	<u>100%</u>	<u>100%</u>

NOTE K - MEDICAL MALPRACTICE INSURANCE

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$5,000,000 per occurrence with an aggregate amount in any policy year of \$5,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2014, for the policy period from January 1, 2014 to January 1, 2015. Management believes that any claims asserted for incidents occurring through December 31, 2014, would be settled within the limits of insurance coverage.

SUPPLEMENTARY INFORMATION

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

ACCOUNTS RECEIVABLE

Year ended December 31,

Aging of accounts receivable, based on date of discharge, is as follows:

Aging	Amounts		Percent	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current	\$ 9,050,035	\$ 8,131,172	60.6%	58.7%
31 to 60 days	2,270,283	2,572,817	15.2	18.6
61 to 120 days	1,763,004	2,107,048	11.8	15.2
Over 120 days	<u>1,854,538</u>	<u>1,036,356</u>	<u>12.4</u>	<u>7.5</u>
	14,937,860	13,847,393	<u>100.0%</u>	<u>100.0%</u>
Less allowance for contractual adjustments	(6,595,348)	(6,400,228)		
Less allowance for uncollectible accounts	<u>(2,727,593)</u>	<u>(2,046,640)</u>		
	<u>\$ 5,614,919</u>	<u>\$ 5,400,525</u>		

Changes in the allowance for uncollectible accounts are as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 2,046,640	\$ 2,069,917
Provisions for bad debts	4,194,556	4,460,146
Collections of accounts previously charged off	<u>2,026,629</u>	<u>2,062,057</u>
	8,267,825	8,592,120
Accounts charged off	<u>(5,540,232)</u>	<u>(6,545,480)</u>
Balance at end of year	<u>\$ 2,727,593</u>	<u>\$ 2,046,640</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

PATIENT SERVICE REVENUE

Year ended December 31,

	2014		2013	
	Patient service revenue	% of gross patient service revenue	Patient service revenue	% of gross patient service revenue
Inpatient services				
Daily patient care				
Acute care	\$ 10,335,888	8.7	\$ 9,379,798	8.6
Skilled nursing care	2,077,261	1.8	1,594,199	1.5
Intensive care	2,422,070	2.0	1,911,001	1.8
Nursery	804,913	0.7	680,815	0.6
Operating room	1,336,985	1.1	1,429,709	1.3
Recovery	193,511	0.2	213,567	0.2
Delivery and labor room	866,478	0.7	725,817	0.7
Medical and surgical supplies	1,371,577	1.2	1,367,382	1.3
Emergency	450,263	0.4	361,359	0.3
Laboratory	4,681,679	4.0	4,399,980	4.0
Electrocardiology	121,627	0.1	91,906	0.1
Radiology, nuclear medicine, ultrasound, CT, and MRI	2,429,819	2.1	1,992,618	1.8
Pharmacy	4,451,066	3.8	4,245,724	3.9
Anesthesiology	24,793		31,247	
Respiratory therapy	2,690,340	2.3	3,041,847	2.8
Physical therapy	635,228	0.5	458,085	0.4
Electroencephalography			1,756	
Speech therapy	128,213	0.1	115,314	0.1
Cardiac rehabilitation	3,774		8,154	
	<u>35,025,485</u>	<u>29.7</u>	<u>32,050,278</u>	<u>29.4</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

PATIENT SERVICE REVENUE - CONTINUED

Year ended December 31,

	2014		2013	
	Patient service <u>revenue</u>	% of gross patient service <u>revenue</u>	Patient service <u>revenue</u>	% of gross patient service <u>revenue</u>
Outpatient services				
Observation and infusion	\$ 6,024,797	5.2	\$ 6,306,279	5.9
Operating room	8,733,273	7.4	7,376,548	6.8
Recovery room	1,764,697	1.5	1,802,615	1.7
Delivery and labor room	531,990	0.4	469,090	0.4
Medical and surgical supplies	3,969,018	3.4	3,867,719	3.6
Emergency	10,489,714	9.0	9,252,230	8.6
Laboratory	10,258,512	8.7	10,387,279	9.5
Electrocardiology	531,183	0.4	518,571	0.5
Radiology, nuclear medicine, ultrasound, CT, and MRI	21,711,357	18.4	20,394,277	18.7
Pharmacy	5,361,780	4.5	4,712,502	4.3
Anesthesiology	140,539	0.1	140,646	0.1
Respiratory therapy	803,844	0.7	718,207	0.7
Physical therapy	2,442,956	2.1	1,864,084	1.7
Electroencephalography	933,954	0.8	792,268	0.7
Speech therapy	1,375,280	1.2	1,126,639	1.0
Cardiac rehabilitation	518,946	0.4	394,837	0.4
Home health and hospice	946,797	0.8	900,759	0.8
Ambulance	2,998,842	2.5	2,670,573	2.5
Social services	22,151		12,113	
Womens clinic	2,236,496	1.9	2,116,523	1.9
Specialty clinic			36,260	
Erie family care clinic	390,559			
Orthopedic clinic	1,032,593	0.9	890,469	0.8
	<u>83,219,278</u>	<u>70.3</u>	<u>76,750,488</u>	<u>70.6</u>
Gross patient service revenue	118,244,763	100.0	108,800,766	100.0
Deductions from patient service revenue				
Contractual adjustments	(69,086,538)	58.4	(62,136,706)	57.1
Medicaid DSH payments	937,600	(0.8)	937,740	(0.9)
Charity and other discounts	(2,389,973)	2.0	(1,844,677)	1.7
Provision for bad debts	(4,194,556)	3.5	(4,460,146)	4.1
Net patient service revenue	<u>\$ 43,511,296</u>	<u>36.9</u>	<u>\$ 41,296,977</u>	<u>38.0</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended December 31,

	2014			2013		
	Salaries and other wages	Supplies and expenses	Total	Salaries and other wages	Supplies and expenses	Total
Routine services						
Nursing administration	\$ 1,120,111	\$ 97,372	\$ 1,217,483	\$ 1,069,579	\$ 105,710	\$ 1,175,289
Acute care and nursery	2,653,253	496,113	3,149,366	2,657,528	474,241	3,131,769
Intensive care	750,472	67,026	817,498	740,935	75,107	816,042
	<u>4,523,836</u>	<u>660,511</u>	<u>5,184,347</u>	<u>4,468,042</u>	<u>655,058</u>	<u>5,123,100</u>
Ancillary services						
Observation	616,937	82,822	699,759	757,375	106,418	863,793
Operating and recovery room	798,149	1,055,873	1,854,022	706,375	1,020,810	1,727,185
Central sterile	70,755	165,197	235,952	65,832	142,497	208,329
Delivery and labor		23,221	23,221		4,433	4,433
Medical and surgical supplies	69,167	1,424,390	1,493,557	54,322	1,513,691	1,568,013
Emergency	2,054,878	489,877	2,544,755	2,127,706	325,327	2,453,033
Laboratory	797,205	743,595	1,540,800	770,399	838,283	1,608,682
Radiology, nuclear medicine, ultrasound, CT, and MRI	1,153,124	771,755	1,924,879	1,079,447	599,900	1,679,347
Pharmacy		2,722,717	2,722,717		2,144,509	2,144,509
Anesthesiology		165,315	165,315		160,095	160,095
Respiratory therapy	461,342	93,127	554,469	494,589	88,025	582,614
Physical therapy		1,369,610	1,369,610		1,140,176	1,140,176
Electroencephalography and electrocardiology	24,591	19,747	44,338	22,178	13,933	36,111
Speech therapy	165,779	231,325	397,104	273,064	86,811	359,875
Cardiac rehabilitation	80,166	18,206	98,372	40,071	13,242	53,313
Home health and hospice Lifeline	492,011	164,075	656,086	436,177	165,537	601,714
Ambulance	1,058,649	119,087	1,177,736	1,051,059	146,660	1,197,719
Social service		15,187	15,187		6,986	6,986
Womens clinic	798,816	135,727	934,543	914,975	137,063	1,052,038
Specialty clinic	71,235	3,596	74,831	126,241	2,014	128,255
Erie clinic	219,118	143,571	362,689	15,341		15,341
Orthopedic clinic	207,365	103,171	310,536	197,968	95,635	293,603
	<u>9,139,287</u>	<u>10,061,191</u>	<u>19,200,478</u>	<u>9,133,119</u>	<u>8,752,045</u>	<u>17,885,164</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
 OPERATING EXPENSES BY FUNCTIONAL DIVISION - CONTINUED
 Year ended December 31,

	2014			2013		
	Salaries and other wages	Supplies and expenses	Total	Salaries and other wages	Supplies and expenses	Total
General services						
Administrative and general						
Administration	\$ 791,628	\$ 628,751	\$ 1,420,379	\$ 816,121	\$ 696,267	\$ 1,512,388
Business office	338,182	471,834	810,016	312,243	490,899	803,142
Communications	141,796	136,352	278,148	141,629	234,177	375,806
Data processing	413,636	838,794	1,252,430	370,787	795,648	1,166,435
Accounting	312,573	161,023	473,596	291,291	151,837	443,128
Bond issuance costs		312,829	312,829			
Quality improvement	187,425	8,179	195,604	40,067	35	40,102
Patient transportation	42,660	17,164	59,824	47,252	17,766	65,018
Insurance		270,021	270,021		268,189	268,189
Admissions and switchboard	380,936	62,123	443,059	403,728	75,047	478,775
Printing	30,039	11,958	41,997	27,545	12,347	39,892
Resident House		12,788	12,788		11,875	11,875
Human resources	246,809	62,478	309,287	225,415	53,325	278,740
Employee benefits	148,218	4,797,450	4,945,668	197,458	4,444,203	4,641,661
Dietary	382,456	720,292	1,102,748	384,170	668,925	1,053,095
Plant operation and maintenance	376,044	1,438,752	1,814,796	358,608	1,495,707	1,854,315
Rehab and fitness center		31,813	31,813		28,761	28,761
Purchasing	137,919	27,518	165,437	127,307	51,416	178,723
Housekeeping	337,984	171,172	509,156	351,840	168,869	520,709
Laundry and linen		206,849	206,849		206,798	206,798
Medical records	475,887	178,139	654,026	477,223	195,012	672,235
Continuing education	225,968	91,521	317,489	346,483	73,808	420,291
Gift shop		38,636	38,636		36,878	36,878
	<u>4,970,160</u>	<u>10,696,436</u>	<u>15,666,596</u>	<u>4,919,167</u>	<u>10,177,789</u>	<u>15,096,956</u>
Depreciation and amortization	-	3,423,828	3,423,828	-	3,289,492	3,289,492
	<u>\$ 18,633,283</u>	<u>\$ 24,841,966</u>	<u>\$ 43,475,249</u>	<u>\$ 18,520,328</u>	<u>\$ 22,874,384</u>	<u>\$ 41,394,712</u>